REVIEW OF RESEARCH
IMPACT FACTOR : 5.7631(UIF) UGC APPROVED JOURNAL NO. 48514 ISSN: 2249-894X
VOLUME - 8 | ISSUE - 1 | OCTOBER - 2018

AN ANALYTICAL STUDY OF FOREIGN INVESTMENT IN INDIA

Dr. Sudhir M. Tale
M.Com, M.Phil, Ph.D , K.R. M. Mahila Mahavidhiyalaya,
Vazirabad, Nanded.

ABSTRACT

It was China, a highly closed economy in the seventies, changed the notion of development by following liberal policies for attracting foreign investment as means to meet the investment needs and to accelerate growth of their economy. Investment by FPIs on the other hand, is predominantly in the stock markets with the purpose of solely trading in shares of companies, and also investment in corporate debt and government securities. Their objective is to book profits on investments made. The government to facilitate foreign investment has also introduced fast-track mechanism of the 'automatic route' subject to sectoral capts, for projects which do not require industrial license and not having existing joint venture in India. The Chinese people though settled overseas still countinue to have their roots for investment matters in China, which is the missing link in India. Our NRIs, when comes to investment decisions rank other countries higher than India.

KEYWORDS: *Foreign Investment (FI) - Foreign Direct Investment (FDI) – Organized Retail (OR) – Special Economic Zone (SEZ) - Export Oriented Unit (EOU)*

INTRODUCTION

Foreign investment has been a key area of reforms over the last two decades. It was not too long ago when foreign investment was treated with mistrust associated with the multinationals operating for self-interests with exploitative tendencies, a bitter fallout of the earlier control regime.

It was China, a highly closed economy in the seventies, changed the notion of development by following liberal policies for attracting foreign investment as means to meet the investment needs and to accelerate growth of their economy.

They showed that for development purposes money matters and not the 'colour' of the money. Also that foreign investment is not a necessary evil, as widely believed, by many economies. The transformation of the Chinese Economy to its present look can largely be attributed to foreign investment in their country.

But what exactly is foreign investment? Foreign investment comprises of two components, one referred as foreign direct investment (FDI) and the other as investments by foreign institutional investors (FII) now referred as foreign portfolio investor (FPI). FDI represents overseas equity investment projects in India with the investment objective of directly managing businesses. The equity investment can be in an existing company or as a new company for various projects in the country.

The extent of equity a foreign investor can bring in different projects is referred as 'sectoral caps' and prescribed by government through its various 'press notes, issued by Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry'. Some aspects of FDI should be kept in mind, one is that they come with a business orientation, with an explicit profit motive and they provide a unique blend of resources, technology, knowledge and professionalism and management techniques. Their interests are not short-term but long-term. A misconception of FDI is repatriation of profits or outflows from the country. As mentioned earlier, they operate with a commercial motive, but will not begin in earn profits immediately and it takes time to achieve break even by companies before they begin to earn profits. Even when they begin to earn profits repatriation, is not of the entire profits but only a certain percentage of profits earned and that cannot be legitimate criticism of FDI.

Investment by FPIs on the other hand, is predominantly in the stock markets with the purpose of solely trading in shares of companies, and also investment in corporate debt and government securities. Their objective is to book profits on investments made. Such investments are short-term and volatile and if millions of dollars can come in, they can also go out overnight. They stay in the markets as long as things are good and the first one to leave in period of uncertainty. They are referred as 'fair weather friends'. Such investments are also known as 'portfolio investment'.

FOREIGN DIRECT INVESTMENT (FDI):-

What changes have been taken place with regard to foreign investment in India? India's attempt at opening up for foreign investment has been gradual and cautious step-by-step. First, foreign investment policy was selective and restricted to high-priority areas only. Then came the era of 'hyphen' products. Foreign companies were allowed to invest in India but only as a joint venture along with an Indian partner, such as Maruti-Suzuki, Akai-Bush, BPL-Sanyo, Tata-Yodogawa, etc.

Besides, certain areas have sectoral caps such as insurance and foreign equity is restricted to 26 per cent. For banking, telecommunications and airport service provider it is not exceeding 49 per cent. The sectoral caps are increased by the government through its various 'press notes' depending on needs of the economy.

In certain areas such as gambling, betting, lottery business, atomic energy, agriculture and multiproduct-organized retailing, FDI is not permitted.

The government to facilitate foreign investment has also introduced fast-track mechanism of the 'automatic route' subject to sectoral capts, for projects which do not require industrial license and not having existing joint venture in India. All investments by NRI/persons of Indian orgin (PIO)/ overseas corporate bodies (OCB) as also SEZ, EOU, EHTP and STPI are under the automatic route. It has also set up the foreign investment promotion board (FIPB) for single window clearance, within 90 days, for all projects involving investment up to Rs. 1200 crores and beyond are referred to cabinet committee of economic affairs (CCEA), Government of India.

Government also set up the foreign investment implementation authority (FIIA), for inter-ministerial coordination and to ensure quick translation of the approvals given into the investment. It can be seen that almost the entire economy, except for the agricultural sector and select sectors, has been thrown open for foreign investment, indicating that the government is welcoming foreign investors in the domestic economy.

We have to be clear that the debate over foreign investment in terms of their demerits has been given a quite burial. The second is whether it is a matter of choice or compulsion. We have to face the fact that India has a distinct 'investment deficit' and there are 'no options' other than foreign investment to bridge this huge deficit.

It has been discussed previously about the investment in infrastructure alone of a staggering USD 1 trillion dollars over the next decade. yet another thing not understood is that: 'India needs foreign investment more than foreign investment needs India'. It is in this light the easing of restrictions on foreign investment has to be seen.

what has been the impact? Since the beginning of opening up for foreign investment in 1991, India has been able to attract around USD 200 billion.

It is impressive? China on the other hand, during the same period has been able to attract over USD 1000 billion or over USD 1 trillion. FDI in India came in driblets till 2007. The period 1991-2007 witnessed very poor levels of foreign investments. It, however, has picked after 2008 with USD 55 billion coming in just three years to again get reduced since 2013. thus India, at least in the last few years, can be said to be attracting foreign investment but clearly not as much as the other economies are attracting. the global crisis since 2007 has come as a blessing in disguise with a lot of capital flows coming into emerging economies and India included even though not in a same magnitude.

Despite the considerable easing to restrictions why is India not a preferred destination for FDI? It has a large pool of English-speaking workforce, cheap labour, natual resources, a growing economy, second largest market and a government-favouring FDI. The answer lies in a number of factors which are as follows:-

(1) First and the foremost, a foreign investor draws a global comparison before taking a decision on the choice of destination and thus the government has to look from 'their' perspective and not from 'its' own perspective. It has to see what are they looking for and then providing it to them.
(2) There are a lot of areas where India has a comparative disadvantages over economies such as China, Korea and Brazil in infrastructure, stringent labour laws, still large dominance of public sector, relative imperfect market and so on.
(3) It may also be mentioned that globally Idnia is ranked very low in terms of the 'ease of doing business'.
(4) even though there is single window clearance for all FDI, it is 'ineffective' as still multiple clearances are required at the central and also state government's level.
(5) The earlier controversial Enron power project and the present controversy around POSCO and the Vedanta group serve as enough deterrents to FDI.
(6) Even though policy has changed but the mind sets have not changed, it is still felt that India is doing them a favour rather than the other way around.
(7) The state governments do not give due priority of the same degree as the central government leading to delays.
(8) The labour market is inflexible with regulations around them making it difficult for foreign investors to comprehend and prefer to go to other destination which have greater flexibility in labour laws.
(9) Yet another factor has been the fact that the so-called reforms and the liberalization policies still lack transparency with explicit licensing replaced by implicit back door regulations in the economy.
(10)Somehow the clear message of liberal FDI in India has not been publicized at the international level. Something as 'India as an investment destination'.

It is precisely for the above reasons that economies like china and others are scoring above us. There is yet another important difference is the indifference of the NRI to invest in India. Most of the FDI in China comes from expatriates and those who were earlier of Chinese origin but now settled in various countries.

The Chinese people though settled overseas still countinue to have their roots for investment matters in China, which is the missing link in India. Our NRIs, when comes to investment decisions rank other countries higher than India.

FOREIGN DIRECT INVESTMENT (FDI) IN ORGANIZED RETAIL:-

Foreign Direct Investment in organized retail is yet another area shrouded in controversy. What is organized retail? Let us define retail first, it is household requirement of the people comprising of food and grocery, clothing, convenience, consumer goods, etc. Secondly, organized retailing is selling of these household commonly used goods to the people directly, as branded products across counters in big stores.

Organized retailing is virtually non-existent in India and dominance of the 'mom-pop' stores kirana shops and neighbourhood shops. Unorganized retailing accounts for over 90 per cent of retail business in India. The retail market in India is growing exponentially and is projected to reach over USD 350 billion by 2015. Can such a huge market be handled as 'unorganized' business efficiently?

What is the present status of FDI in retail sector? FDI in organized retailing is permissible in India through the following four routes:

(1) FDI in retail is permitted through the franchise route like McDonalds where the foreign company gives a franchise to an Indian to sell on their behalf and use their brand name.

(2) Yet another way in retail is if the company is sourcing from India and manufacturing the product in India it can use the brand name such as Arrow, Benetton, etc.
(3) Another route is the 'cash and carry' concept, where the company can sell the product to a wholesaler in India who would then do the retailing like 'Spencers'.
(4) FDI is also permitted up to equity participation of 51 per cent but only for single product/brands.
(5) Only recently government has permitted 51 per cent equity (shares) as FDI in multi brand retailing business, subject to a minimum investment of USD 100 million, 50 per cent of which has to be in back-end activities. Such retail stores can only be set up in cities with population more than 10 lakhs and too after approval of the concerned state government. There is also a stipulation that 30 per cent sourcing should be done from small-scale industries.

So FDI in retail implies allowing the foreign companies like Wal-mart to set up the stores in India for selling multi-branded household goods to the people.

So what is wrong with Wal-mart setting up stores in India? It is widely believed that allowing FDI in organized retail would mean an end to the kirana shops, bring the curtains down on the 'mom-pop' stores. The unorganized sector in retail would go out of business, result in mass-scale unemployment threatening the livelihood of the millions who are dependent on this business. It is also feared that such big stores will solely promote more consumerism given their aggressive marketing strength and thus affect savings in the economy as a whole. Such foreign companies may acquire monopoly status in consumer oriented goods resorting to consumer exploitation.

Is this contention correct? This can be dealt in another way. What can be the likely benefits of FDI in organized retail?

(1) These foreign companies have the experience, knowledge of such business and would bring best practices to the country.
(2) They would be able to bring the best in the world to the country and a much wider choice set.
(3) Their motto, rightfully is, customer first. They would always work in the interest of customer in providing better quality products and hygienic food items.
(4) Their functioning is essentially large volumes less margins, scientific inventory management and minimal wastages which enable them to price goods cheaper than the market.
(5) The present unorganized retailing has huge wastages, not much inventory management resulting in their higher prices.
(6) Thus, these companies will bring better quality goods at very competitive prices, providing value for money.
(7) These companies are very conscious of their precious brand name and reputation and will never compromise on the quality of goods or claims being made by them. If they are promoting goods as the cheapest in the country, then rest assured they have performed their homework well-enough to have made the claim.
(8) They believe in building their own supply chains down the line which is highly employment intensive.
(9) However, the real tangible benefits are likely to occure to the agricultural sector such as newer technologies, improved productivity, building up of supply chains, warehousing, better quality and price to the farmers because of elimination of the middlemen.
(10) It would also promote setting up of farmers, groups and cooperatives as facilitators between the farmers and organized retailer.

The fear of end of kirana stores in the country because of multi-branded organized has a few basic facts. First is, about the retail behavior in India and the western countries which is quite different. In the west, people believe in monthly grocery shopping and are seen as a family outing. This is not so in India where daily consumables are bought on a daily basis.

Second, each of these stores require huge area to provide everything to the people and are usually located on the outskirts of a town to save on rentals as downtown rates may be expensive. They believe in keeping costs down to the minimum i.e. their unique selling point (USP) it will be difficult for them to reach out the consumers in the same way as a kirana store. Given Indian retail behaviours how many times will a person go the Wal-mart for his purchases of milk, vegetables and other such daily consumables even if they are cheap but located at a far-off destination?

The kind of reach to households which the kirana shops have in India providing personalized services can never be matched by these foreign companies despire their beast of efforts i.e. , to say that the kirana shops should not fear the Wal-marts. Rather the other way around, of the Wal-marts fearing the kirana shops. This challenge has also been acknowledged by the chairman of Wal-mart, of India being a huge but different and difficult market to penetrate.

CONCLUSION :-

On the whole, there appears to be misplaced apprehensions on FDI in organized retail. It will bring distinct improvement in supply chain management, development o back end infrastructure, create employment, give revenue to the government. It will also provide quality goods at affordable prices. Over a period of time, there would be consensus of the broad –based benefits of organized retailing. Besides the aforesaid debate around FDI in multi-product organized retailing there are certain other issues around FDI.

REFERENCES:-

1) " Indian Economy " by Rudar Dutt and Sundaram.
2) " Indian Economy " by Mishra and Poori
3) " The Economic Times of India " Mumbai.
4) " Economic Political Weekly"
5) " The Times of India", Mumbai
6) " Indian Economy" by Uma Kapila.
7) " The Hindu", Chenai.
8) " The Indian Express", Mumbai.
9) " Reserve Bank of India's Bulletins

Dr. Sudhir M. Tale
M.Com, M.Phil, Ph.D , K.R. M. Mahila Mahavidhiyalaya,
Vazirabad, Nanded.